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TRADE AND DEVELOPMENT BOARD

Ninth Special Session (Second Part)

SUMMARY RECORD OF THE 485th MEETING

held at the Palais des Nations, Geneva,
on Tuesday, 24 January 1970, at 3.20 p.m.

President: Mr. de ZOYSA (Sri Lanka)

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PURSUANT TO CONFERENCE RESOLUTION 96 (IV), REVIEW OF ACTIONS CONCERNING THE INDEBTEDNESS OF DEVELOPING COUNTRIES, IN PARTICULAR, THE DISCERNING OF FEATURES WHICH COULD PROVIDE GUIDANCE IN OPERATIONS RELATING TO DEBT PROBLEMS (agenda item 2) (TD/B/670, TD/B/680 and Add.1-5; TD/AC.3/3) (continued)

CONSIDERATION OF PROPOSALS MADE BY DEVELOPING COUNTRIES AND OF OTHER VIEWS EXPRESSED AT THE FIRST SESSION OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON THE EXTERNAL INDEBTEDNESS OF DEVELOPING COUNTRIES AS REFLECTED IN DOCUMENT TD/B/670 (agenda item 3) (TD/B/680 and Add.1-5; UNCTAD/GID/1022) (continued)

and

CONSIDERATION OF BOARD DECISION 149 (XVI) RELATING TO LEAST DEVELOPED, DEVELOPING ISLAND AND LAND-LOCKED COUNTRIES (agenda item 4) (TD/B/681) (continued)

1. Mr. LI Chih-min (China) noted that, since the first part of the session, the question of the indebtedness of developing countries had been discussed at various international conferences, but with no decisive results. He also noted with regret that there had been little progress at the second session of the Intergovernmental Group of Experts on that subject.

2. The external debts of the developing countries had now escalated beyond $600 billion, and their servicing constituted a heavy burden. Moreover, they were snowballing. A few economic Powers, especially the two super-Powers, had raised the prices of industrial products, reduced those of raw materials and limited their imports of primary products, which had led to a deterioration in the developing countries' terms of trade, a sharp rise in their national expenditure, a drop in their income and an increase in their balance-of-payments deficit, forcing them into heavy borrowing. The economic crisis and inflation in the capitalist world had aggravated that burden still further. In short, the main causes of the indebtedness of developing countries were exploitation, plunder and domination by the super-Powers. They were connected with the old international economic relations and not with the rise in oil prices, as was claimed by some, in particular the super-Powers, which thereby sought to divert attention and shirk their responsibilities.

3. His delegation noted with satisfaction that numerous developing countries were taking resolute steps to strengthen their economy by pursuing a policy of independence, self-reliance and country-wide efforts at reducing their dependence on foreign loans.

4. China considered that developing countries were completely justified in seeking a generalized solution to their debt problem through international negotiations; such action was in line with the struggle to establish a new international economic order.

5. His delegation supported the proposals put forward by the developing countries to reduce their indebtedness. It welcomed the understanding attitude of some countries and their pledge to reduce the debt burden of developing countries.

13. The second proposal concerned future debt reorganization; the Group of 77 would willingly study the possibilities of convergence of its proposal with that of the Group B countries.

14. The Group of 77 considered that its own proposals offered the best possible solution to the developing countries' debt problem, but was prepared to discuss the different elements of the proposals with a view to establishing an order of priority and the exact methods of achieving the desired objectives. It would welcome specific responses to each of its proposals and was therefore most appreciative of the Swedish Government's memorandum on the question of immediate debt relief.

15. The Group of 77 believed that the meeting of senior officials should aim at drafting a common document incorporating recommendations calculated to facilitate the work of the ministers and enable them to take valid decisions on well-defined issues. It would be inappropriate for a meeting of such an exceptional nature as the ministerial session of the Board to devote its time to general economic analyses that were a task for experts, and it had already been carried out.

16. The proposals of the Group of 77 relating to the least developed countries, the developing island and the developing land-locked countries, that would enable the Board had different to its Decision 165 (XVII), and which advocated special measures in favour of those countries, were also worthy of then most urgent consideration. Another commitment, which was still valid, had been given by UNCTAD as a matter of priority with the debt problems of those countries, and the question had been referred to the ministerial session, which would have to work out concrete measures.

17. The Group of 77 attached great importance to the debt problems of the developing countries, and to the ministerial session. The success or failure of that session would vitally affect the general orientation of economic relations between developed and developing countries. It believed that the problem of indebtedness offered immediate possibilities for action which would yield concrete results. There was an imperative that the work of the ministerial session should focus on that particular issue.

18. <u>Mr. SAMEAH</u> (Egypt) said that the aggravation of the situation of the developing countries in the past few years testified to a fundamentally inequitable international order. World solidarity, as well as enlightened, should be made to realize that there was a danger of the situation descending on the economy of developed countries, whereas a satisfactory solution of the problems facing the developing countries would produce favourable effects in the rich countries and in the world economy in general.

24. Mr. SKÅLA (Sweden) said that the dramatic changes in the world economy in recent years had brought the debt problems of the developing countries to the forefront of concern in the international community, which had unfortunately not yet succeeded in taking effective measures to solve them.

25. It was difficult to forecast how the overall debt situation would evolve: the problem had to be studied country by country or for groups of countries having certain features in common. It was generally recognized that the poorest countries were in a critical situation: their export earnings were stagnant, or even in decline, with the result that the debt servicing ratio for that group of countries as a whole had increased substantially, as the cost to them of importing oil and manufactures had risen dramatically, while the net inflow of financial resources from developed countries and multilateral institutions had remained unchanged. They would therefore continue to live with low levels of indebtedness burdensome. That was why his Government had been advocating for several years the concept of aid to the poorest countries in the form of grants and debt relief. Sweden had decided to write off all its official development assistance (ODA) credits to the least developed and most seriously affected countries, thereby transforming what once had been loans into grants and bringing them into line with contemporary conditions for the transfer of resources. It was in the hope that its example would be followed that it had submitted an official memorandum (TD/B/609/Add.1, annex I, section C) to the Intergovernmental Group of Experts.

26. His delegation hoped its proposal might serve as a basis for the discussions at the ministerial session. It recognized that in some countries there might be legal and constitutional obstacles to the outright cancellation of credits and it was therefore proposing a flexible formula under which countries would have a choice between cancelling all their ODA credits, cancelling debt service for a fixed period, or granting their debtors additional ODA on special terms. The suggestions made in the memorandum ought not to entail considerable efforts on the part of industrialized countries, since in 1978 the servicing on ODA credits by the poorest developing countries had corresponded only to 4 per cent of their ODA.

27. He emphasized that the methods his delegation was proposing were not intended to become a general rule and related only to the particular case of the poorest countries. While it had no intention of abandoning its general practice with regard to international debt consolidation, the Government of Sweden, like the Governments of other Group B countries, favoured a case-by-case approach.

28. With regard to the broader issues of indebtedness, Sweden felt that there should be an early resumption of the efforts to elaborate guidelines or features for future debt reorganization or consolidation. There was common ground in the two proposals submitted in that connexion to the Conference on International Economic Co-operation and a compromise might be possible between the proposal made by the United States of America and the European Economic Community and that made by the Group of 77. His delegation hoped that the ministerial session would mark the start of negotiations on that issue.

29. Sweden firmly believed that the time was ripe for concrete action to alleviate the debt burden of the poorest developing countries. Failure to agree on such a limited demonstration of solidarity would constitute a serious setback to all the joint efforts within the context of the North-South dialogue.

30. Mr. SUSSEX (International Confederation of Free Trade Unions (ICFTU)), speaking at the invitation of the Chairman, expressed the concern of ICFTU at the mounting debt burden of developing countries and its regret that no agreement on that issue had been reached at the Conference on International Economic Co-operation. That concern was only natural, for, with the debt problem hindering their growth, the developing countries were buying less from the industrialized nations and that led to a decline in employment in the latter.

31. Countries which went on overspending spree in order to repay earlier borrowing found themselves caught in a vicious circle and were forced to divert to other uses the funds they required for essential investments of the type recommended in the International Development Strategy and the programme of action adopted by the International Labour Organisation (ILO) at the World Employment Conference. Since 1973, there had been persistent stagnation, inadequate development, and an international liquidity squeeze, and prospects for the future were gloomy, particularly for working people.

32. The trade union movement hoped that the Board's current session would result in a reduction in the outflow of resources from developing countries for the purpose of debt amortization, so that those countries could participate their economies. The Board should urge all creditor countries to write off their official bilateral credits to the poorest developing countries which were making sincere efforts to meet the basic needs of their populations. ICFTU endorsed the proposals made by Sweden in that respect.

33. With regard to other categories of debts of developing countries, a means should be found of consolidating their debts which would take account of the distinction between private and public debts. Efforts should be made to give countries where a large proportion of the outstanding debt was public and whose economic and social development policy was in accordance with the strategy laid down by the United Nations and ILO the means of carrying that policy, in other words the capacity of exporting its goods and services would remain. That necessitated the speedy restructuring of guidelines and the drawing up of those guidelines by permanent machinery within the already existing international development institution which would apply them in an equitable manner.

34. ICFTU recommended that the analytical phase of such an undertaking should be entrusted to the International Labour Office, which was uniquely competent in the field of employment and social policy. Multilateral finance agencies should be called upon to provide additional resources if required. Whatever the case, the views of the trade unions should be taken into account, for all wage earners and taxpayers who ultimately bore the consequences of any financial policy.

35. A high proportion of private debt could be the source of problems for the debtor countries if there was a shortage of foreign exchange. Unless attempts to remedy the debt problem by consolidation and debt of the developing countries through the establishment of special international financial machinery could result in serious constraints on reforms, it must be accompanied by stringent safeguards for those countries. As with the problem of public debt, there was a need to establish guidelines and to seek the participation of ILO and the trade unions.

In addition, private creditors would have to make concessions, and the machinery to be established should be financed by those countries, whether industrialized or in the process of industrialization, which had chronic current account surpluses. That machinery might be an extension of existing multilateral arrangements, and access to it should therefore be open to all countries having difficulty in financing or refinancing their current account deficits, with special provisions being made for developing countries.

36. ICFTU was fully aware that the debt problem could not be solved overnight, but there could be no question that relief of official debt was an urgent necessity for the low-income developing countries. The Board would disappoint world public opinion if it did not take action, at the ministerial session, to provide such relief.

The meeting rose at 1.20 p.m.